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Speaking points on: “The ESM after 5 years: successes, challenges and perspectives”

Bridge Forum Dialogue

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(Please check against delivery)

Introduction

- Thank you for the opportunity to speak at this conference The ESM after 5 years: success, challenges and perspectives.
- Congratulations to Klaus Regling, his team and staff for what they have achieved in these 5 years!
- Discussion on the role of the ESM, of course, takes place in broader context of “the future of the monetary Union”.

The Eurozone

- Let me first give an impression of how the Eurozone is doing.
- The Eurozone’s performance is impressive and exceeding all expectations.
- The economic sentiment rose in November for the sixth consecutive month to its highest level in more than 17 years.
- Growth in all Eurozone member states (1,5 – 6 %)
- Good outlook for the Eurozone as a whole: 2,1 % (2018), 1,9 % (2019).
- Unemployment is falling, yet remains too high in some countries.
- Public finances are on a sounder footing; average deficits gone from -6 to -1%.
- Debt – although still too high – has started to come down.
- And growth rates in center and periphery have converged.

We are not there yet

- Member States should strengthen their growth potential, improve productivity and become more shock-resilient.
- Now is the time to fix the roof, in other words to become resilient to possible future shocks.
- This is not just about creating fiscal space or new instruments at national or European level, its first and foremost about markets being able to react in a flexible way to adverse shocks inside the Monetary union.
- That is why, in the Five Presidents report, we argued that finishing the Banking Union and creating a Capital Markets union should be our priority. And that has not changed.
- Further steps are needed to enhance the resilience of the financial sector, for instance by building up more capital including bail-inable buffers.

- Reduction of legacy risks in banks will also create the political confidence to take steps forward, such as a possible future European deposit insurance scheme.
- Member states should reduce their indebtedness and build up fiscal buffers which strengthens their ability to absorb future economic shocks;
- Member states should also look at the quality of public spending, and seek to free up fiscal space for crucial investments to improve productivity.
- All of this will contribute to convergence between the member states.
- Convergence is essential for the functioning of the euro area, it boosts the effectiveness of monetary policy and it's vital for political support for the EMU

Priority should be given to completion of ongoing initiatives

- So, lets finish the Banking Union
- Steps have to be taken to reduce and share risks in the financial sector
- We have the Council Roadmap to complete the Banking Union, while lessons learned in recent resolution and insolvency cases should also be taken into account
- Dealing with Non Performing Loans and timely provisioning for new NPLs is crucial and banksupervisor ECB is rightly guiding this process.
- Another ongoing initiative: Review of our fiscal rules.
- Prudent fiscal rules remain important but they need to be made more predictable and less complex. A more medium-term orientation could help to ensure prudent fiscal decision-making

Future ESM

- Let me now turn to the future of the ESM.
- Recent discussions in the Eurogroup followed four strands:

- * Strengthening the role of the ESM in crisis management;
 - * Giving ESM a role in completion of the banking union;
 - * An additional possible role in financing member states in their reform drive;
 - * And finally governance issues and the relation to EU legal framework
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- So far we had good and fruitful discussions in Eurogroup, making me optimistic about the outcome.
 - First of all: strong positive sense about the work that the ESM has done so far:
 - * ESM programs for Greece, Cyprus, Ireland, Portugal and Spain;
 - * ESM is effective in funding and financing.
 - The ESM should play a central role in future support programs. Simplifying the current setup of troika or quartet. Again; broad support.
 - We must make sure that a solid agreement is reached between the Commission and the ESM on how they could work together. Respecting the crucial role the Commission has to play as guardian of the Pact, as well as the unique experience and capacity of the ESM, developing into an EMF.
 - Secondly: I see quite strong agreement on working within the current legal framework.
 - Let's focus on substance rather than an overhaul of the legal setup.
 - I see little support for the ESM to become an agency to the Commission.
 - I believe the intergovernmental character of the institution has helped to build trust between member states and has created a solid basis for further integration.
 - Integration into the EU legal framework could be on our agenda at a later stage.
 - The legal setup of the EIB could be an example but it would require a EU-treaty change.

- The ESM must keep its very strong position in markets, protecting its high rating and expanding on the confidence of investors worldwide. Here again, independence is key.
- We can and should enhance the accountability to the European parliament, further improving the transparency of our work.

- Thirdly: I see broad support among member states in involving ESM in providing a backstop to the single resolution fund. We already had agreement about the need for a common backstop, fiscally neutral over the medium term, but now there also seems to be agreement possible over the use of the ESM for this purpose.

- Finally: The ESM might also play a role in providing a stabilization tool for member states facing an adverse economic shock whilst supporting their process of necessary economic reforms.
- This instrument could be designed as a revolving fund, which can be used in future crises.
- Further discussions will obviously be needed on this in the coming year.

Future of EMU debate: focus on ESM

- The ESM has played an important role in the remarkable Euro area recovery. It is now a strong, independent, efficient organization. Let's make even better use of its potential.
- Helping memberstates in their reformdrive; Managing supportprograms; Providing backup for the Banking Union
- The debate about the future of EMU is more and more about the future role of the ESM.
- And I think that is the biggest complement this young institution could get!

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